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FM AMEMBASSY RANGOON
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RUEHFR/AMEMBASSY PARIS 0647
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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000762

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SUBJECT: BURMA: A/S CAMPBELL'S MEETING WITH ECONOMISTS AND BUSINESS REPRESENTATIVES

REF: RANGOON 00727

Classified By: Economic Officer Marc Porter for Reasons 1.4 (b and d).

Summary

¶1. (C) During a one-hour meeting on Nov. 4 with EAP A/S Campbell, Burmese economists and private sector representatives described Burma's economic woes, including a dearth of credible statistics, rampant corruption, and pervasive GOB ignorance of sound economic policy. Though downbeat about prospects for reform, they urged the U.S. to attempt to convince Burma's senior generals about the need for, and potential benefits of, a new approach on the economy. End summary.

No Good News

¶2. (C) Economic roundtable participants -- a retired UN economist, head of a business consulting firm, owner of a struggling garment factory, a petroleum services provider, and director of a commodity trade quality assurance firm -- described for A/S Campbell an economy in dire straits. Most of Burma's economy has changed little since the colonial period and remains dominated by agriculture. More people are falling into poverty, and the poor are getting poorer. Most of the population struggle to make ends meet in a stagnant economy plagued by high inflation. Many Burmese now spend over 70 percent of their income on food, and increasing numbers of people are forced to skip meals each day. Official GOB statistics reflect over 12 percent GDP growth each year for the last decade -- which would far outstrip other regional economies -- but the government's statistics completely lack credibility; meanwhile, external economic reports, including by the IMF, are banned.

In the Hands of the Few

¶3. (C) Participants noted that resources and economic opportunity are concentrated in the hands of "privileged"

people whose access to top regime officials allows them to prosper. These include both private sector "cronies" and generals holding senior positions in economic ministries and state-owned enterprises. Ministers drawn from the armed forces generally have no understanding of the portfolios they control and do not distinguish between what is good for them personally and what is good for the country. Ministers and bureaucrats take orders from above and do not dissent even when those instructions are at odds with economic reality.

¶4. (C) The group agreed some generals understand the harm being done to Burma and can formulate, or at least understand, sound ideas designed to spur development. The problem is that they cannot act, since any "reasonable" general who bucks the system -- even by demurring on opportunities for graft -- usually "gets the boot." Moreover, in the opinion of at least one participant, any U.S. effort to reach out to potential reformers would be the "kiss of death" for them, resulting in a fate similar to that of former Military Intelligence Chief Khin Nyunt, whom Than Shwe sacked and put under house arrest in 2004.

Corruption Widespread

¶5. (C) According to the group, corruption evolved from a minor phenomenon in the 1980s to a "system" today with its own structure and rules. Corruption taints all economic activity -- from bribes at the highest levels down to the 'tea money' that minor bureaucrats demand to conduct routine business. Regional investors not constrained by economic

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sanctions, specifically the Chinese, Thais, and Singaporeans, are more than willing to factor graft into their plans as a cost of doing business. In return, Burmese often receive inferior products and services.

Sanctions

¶6. (C) Burmese participants agreed that Western sanctions have resulted in unintended consequences. In the words of one, sanctions contributed to the GOB's siege mentality and caused them to "circle the wagons." All agreed sanctions adversely affected some industries that were mostly free of GOB involvement, particularly the garment sector. Interlocutors also agreed that financial sanctions have benefited banks and intermediaries in Singapore and elsewhere who facilitate dollar-based transactions and hold money for Burmese entities, including the GOB. One participant noted that Singapore banks initially hold in escrow the foreign currency proceeds of the regime's natural gas sales. He suggested the USG question Singapore and Singapore-based banks about the ultimate disposition of those funds.

Ideas for the Future?

¶7. (C) A/S Campbell and DAS Marciel solicited suggestions on the way forward for the U.S. engagement with the GOB. Interlocutors offered several small-scale ideas. Burma's economy runs essentially without safety or environmental regulations and has a very limited regulatory structure in the financial sector. Participants suggested the U.S. assist to strengthen the capacity of Burmese regulatory bodies and broaden the horizons of officials in regulatory positions.

¶8. (C) The U.S. could also convey the potential benefits of economic development to senior officials, and hopefully through them to the one or two key decision-makers. One participant suggested ironically that the USG may have more success than Burmese bureaucrats in impressing upon top generals that widespread economic development would help them as much as the general public. While competent technocrats with good ideas exist in the GOB, ideas do not flow up.

Comment

19. (C) The mood of the group, whose views typify those of Burma's professional business class, was decidedly downbeat. Few see potential for positive change in the near- to medium-term. As one attendee lamented, Burma's economy will not have a soft landing. Others here have recommended that the U.S. engage the GOB on economic issues (reftel). That is also part of the UN's thinking on engagement. We see merit in discussing economic issues as a complement to our priority focus on political reform, since the need and potential benefits for the Burmese people are great. However, like political reform, changes to Burma's economic system would strike at the heart of the senior generals' interests (in this case monetary) so we should not be under any illusions that progress would be easy to achieve.

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